The tobacco industry

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What companies make up the Canadian tobacco industry?

Three companies dominate tobacco manufacturing and marketing in Canada: Imperial Tobacco Canada, Rothmans Inc. and JTI-Macdonald Corporation.

Imperial Tobacco Canada began as the American Tobacco Company of Canada in 1908. In 2003 the company was purchased by British American Tobacco, the third largest tobacco company in the world. Imperial Tobacco makes three very popular cigarette brands: du Maurier, Player's, Matinée, and a discount brand, Peter Jackson. Imperial Tobacco closed a plant in Montreal in 2004 and plans to close its two remaining Canadian plants in Guelph and Aylmer, Ontario in 2006 and 2007. The company has sales offices in Montreal, Richmond Hill, Laval and Calgary. In early 2006 it employed about 1,100 people in Canada but after closures it will employ about 450.

Rothmans, Benson & Hedges (RBH) is the second-largest tobacco company in Canada. RBH and its forerunners have been in business in Canada for more than 100 years. Rothmans Inc. owns 60 per cent of RBH and a subsidiary of Altria (parent of Philip Morris International) owns the other 40 per cent. Some of RBH's most successful brands are Craven A, Rothmans, Benson & Hedges, and Belvedere. The company also makes two discount brands, Number 7 and Canadian Classics. Rothmans Inc. has plants in Quebec City and Brampton and its head office in Toronto. In 2004 Rothmans Inc. and Rothmans, Benson & Hedges employed about 790 people in Canada. The company has sales offices in most major cities in Canada.

JTI-Macdonald Corporation is Canada's third-largest tobacco company. McDonald Brothers and Co. was founded in 1858. It was later bought by the giant R.J. Reynolds Industries and then sold to Japan Tobacco Incorporated (JTI) in 1999. JTI-Macdonald has a plant in Montreal and sales offices in Canada's major cities. In 2004 the company employed about 550 workers in Canada. The company's best-known cigarettes are Export A and Vantage.

Where do they get the tobacco?

Tobacco is one of the most productive and lucrative cash crops in the world. Tobacco farmers are among the highest earners in the agricultural sector in Canada, second only to poultry and egg producers. They are also highly subsidized by their industry and protected from much lower world prices.

Today, 95% of Canada's tobacco is produced in southwestern Ontario. Most of the remaining production takes place in Quebec. Tobacco producers are represented by three grower-controlled marketing boards, two in Ontario and one in Quebec.

The Office des Producteurs de Tabac Jaune du Québec (OPTJQ) negotiates for producers of flue-cured tobacco in that province. The OPTJQ acts for 55 Quebec producers. The Ontario Flue-Cured Tobacco Growers' Marketing Board (OFCTGMB) represents more than 750 producers in that province. About 95% of flue-cured tobacco (cured in a kiln) is used in cigarettes. The Ontario Black Tobacco Growers' Association (OBTGA) is the least structured of the three boards and speaks for more than 80 producers. Most but not all black tobacco growers in Ontario

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belong to the OBTGA. Black tobacco is used in cigars and "dark" cigarettes.

In both the United States and Canada the amount of land in production and the amount of tobacco leaf produced have declined sharply in the last 30 years. For example, in Canada in 1970, 43,792 hectares were devoted to growing tobacco. By 2000, that number was reduced to 23,800 hectares. Tobacco leaf production dropped from 100,635 metric tons in 1970 to 53,010 metric tons in 2000. Tobacco companies have moved production into developing countries where the costs of production (wages, taxes, land, etc.) are lower. Imports have more than tripled in the same period. In the 1960s there were more than 4,500 tobacco farmers in Canada; in 2005 there were less than 700.

In spite of fewer acres sown to tobacco in Canada, lower consumption of tobacco and falling smoking rates, tobacco company profits have continued to increase. This is due to at least two factors: effective marketing and industry price hikes, often done at the same time as government tax increases.

How is tobacco grown?

Tobacco requires a milder climate but can thrive in poorer soils. Tobacco plants use large amounts of nitrogen, phosphorus and potassium, more than any food crop and most cash crops. One reason is the way tobacco plants are topped to produce leaves with higher nicotine content. Soil that supports tobacco depends on regular crop rotation and fertilizers to maintain fertility and prevent erosion.

How does the tobacco industry represent its interests to the public?

The tobacco industry often funds front organizations or coalitions to represent its interests in the public sphere. Some of these coalitions work to resist municipal or provincial public smoking bans: Fair Air Association, Pub and Bar Coalition of Canada (PUBCO), Courtesy of Choice (hotels and restaurants), and the Canadian Coalition for Responsible Tobacco Retailing (CCRTR) are made up of tobacco companies, retail and labour organizations. Some front organizations lobby for smokers' rights through websites such as mychoice.ca. They may also fund research for the tobacco lobby.

PUBCO and Fair Air Association have co-funded research that argues communities will suffer economically from smoke-free places legislation. R.J. Reynolds funds the academic journal, *Regulatory Toxicology and Pharmacology*, to support research that suggests the solution to second-hand smoke is better ventilation. Both claims have been widely discredited by independent scientific research.

The CCRTR sponsors enforcement programs (Operation ID and Operation ID/School Zone), which critics like the Ontario Medical Association and Canadian Medical Association conclude are largely ineffective. The CCRTR also sponsors Wise Decisions, a tobacco reduction program in schools. Critics have noted that the program does not follow best practices in tobacco prevention, but focuses on individual choice and parental responsibility rather than explaining the health consequences of tobacco use or the tactics of industry marketing.

The tobacco industry's own documents show that the purpose of most front organizations is to give the appearance of social responsibility and postpone the introduction of more restrictive legislation.

How does the industry market tobacco?

Some commentators believe that government attempts to restrict tobacco advertising have resulted in more creative ways to market the product. When the North American industry itself chose to ban advertising on television or in magazines with youth

readership in 1971, it developed "sponsorship," a sophisticated marketing tool that has survived in various forms to the present. Tobacco companies tied their brand to large sporting or cultural events. Often these events were televised nationally or internationally, attracting a broad following that included youth.

In Canada in the early 1990s, when tobacco companies were no longer allowed to sponsor events under brand names, tobacco companies created branded companies such as Players Racing Ltd., du Maurier Arts Ltd., Matinee Fashion Ltd., and Export A Inc. These companies allowed the industry to continue associating recognizable tobacco brands with a lifestyle of glamour, recreation and daring.

When sponsorship was further restricted in 2003 and companies had to remove brand names, company names and logos from any sponsorship activities, sponsorship continued under spin-offs and subsidiaries in the form of retail stores (also called "brand stretching"), bar promotions, music or sports websites and product placement in movies.

As governments and consumers became aware of the health risks of tobacco use, the industry developed "light" and "mild" cigarettes. As provincial and federal governments raised taxes on tobacco, the industry increased promotion of discount cigarettes. Probably the most effective marketing strategy that the industry still employs is point-of-sale displays that include "power walls." In 2002, Canadian tobacco companies spent more than $377 million on marketing communications (marcom) and retail listing fees, and more than $388 million in 2003. Tobacco companies in Canada spend about 80 per cent of their marcom budget on power walls.

Brand stretching

Several companies have developed retail products that are unrelated to tobacco, but carry tobacco brand names. Some of these include Salem Cool Planet music stores and Camel and Marlboro clothing stores.

Bar promotions

Other companies have spun off bar promotions to special event companies (often once or twice removed). For example, Imperial Tobacco created Rumbling Walls Events, which in turn sponsors Definiti events. Channel 2, another subsidiary of Imperial Tobacco, displays du Maurier products at these events.

Bars decorate with the tobacco brand colours, feature scantily clad cigarette sellers in brand colours, and give away related T-shirts, hats, mini-lighters, coasters, food or beverage coupons, can coolers and other promotional items. Bar promotions have sponsored live bands, local band competitions, swimwear shows, body art exhibitions and other events. In Canada, participating bars or clubs are often located on or near university or college campuses and are designed to appeal to young adults.

Websites

Many companies have developed subsidiary websites centred on sports and music. These sites sponsor contests, special performances or parties at local bars. They may offer free music video downloads, suggest playlists, and provide other services. Like bar promotions, sponsored websites make use of the brand imagery and its association with a glamorous or daring lifestyle. Promotions companies will often advertise their websites in college or university student newspapers. The home page may carry a warning that the site is for adults only; however, this is difficult to monitor or enforce.

Product placement

The frequency of smoking in top-grossing movies in the United States has doubled since 1990. During the 1990s, nine out of 10 Hollywood films showed characters smoking. In a major study in 2005, 38% of youth aged 10 to 14 reported that they had tried smoking because they saw it in movies. The use of tobacco in movies appears to normalize use. Several studies have shown that youth watching movies with characters who smoke have a more positive view of smoking and are much more likely to start smoking.

Light and mild

When tobacco was proven to cause cancer and other diseases, tobacco companies developed "light" and "mild" cigarettes to reassure worried consumers. It was an industry strategy to help postpone quit attempts and to keep people who wanted to quit smoking from doing so. In Alberta, it is estimated that 37% of current smokers smoke light or mild cigarettes. However, research shows that smokers who switch to light or mild cigarettes may consciously or unconsciously adjust their way of smoking – by inhaling deeper and longer, or covering the filter ventilation holes, for instance – to ensure that they inhale enough to achieve a satisfactory nicotine 'hit'. By increasing their intake of nicotine in this fashion, smokers also inhale more tar and other carcinogens.

Discount cigarettes

In response to recent tobacco tax increases, tobacco companies have introduced no-name or discount cigarettes. In 2001 the market share for all discount brands was about two per cent. By 2004 that market share had risen to 34 per cent. According to industry reports, increased sales from discounted brands have more than made up for declines in regular sales. Discount cigarettes undermine the public health objective of reducing the amount of cigarettes smoked and reducing the number of Canadians who smoke. Discount cigarettes are particularly appealing to young smokers who don't have an entrenched brand attachment and students and other low-income smokers who are more price-conscious.

Retail displays

One of the most common ways tobacco companies market their product is with point-of-sale displays. These bright and colourful displays usually include "power walls," rows and columns of cigarette packages arranged by brand behind the store counter. They may also include special signage, dispensing units, branded clocks, counter mats, and even floor rugs. They are often placed close to candy displays, increasing the likelihood that children will get to know tobacco brands and imagery.

Information released under Access to Information laws shows that tobacco companies are spending more than ever on retail promotions of cigarettes. Health Canada data shows that the average tobacco company payment to retailers for the right to advertise cigarettes in retails stores was $876.66 in the first half of 2004. Several provinces and territories in Canada have restricted or banned point-of-sale displays.

Future trends

As more and more jurisdictions move to ban smoking in public spaces and end retail displays, the tobacco industry continues to adapt. Some industry marketers are presenting spit tobacco as the answer to the problem of second-hand smoke and as a safer tobacco product than cigarettes. For more information about spit tobacco, see the other topics in this series.

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